

# PERAC AUDIT REPORT



## Brookline Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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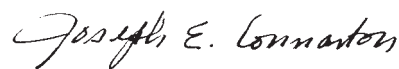
November 10, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Brookline Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Sweeney, Carol Niemira, and James Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **1. Investment Managers:**

In 2004, the Brookline Retirement Board funded three investments prior to receiving notice from PERAC that the required regulatory documents had been submitted.

### **Recommendation:**

The Board must comply with 840 CMR 16.08, which states in part: “The selection and hiring of investment managers, consultants, custodian banks and other investment related service providers by all retirement boards shall be subject to a competitive process which satisfies the boards' fiduciary duty and meets the requirements of M.G.L. c. 32 and 840 CMR. Prior to retention of the vendor, Boards shall notify the Commission that such a process, as well as the provisions of M.G.L. c. 32 and 840 CMR, was adhered to.”

## **2. Membership:**

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. Several members employed by the Brookline School Department were identified as having excess 2% deductions withheld. These members are on a work schedule that has 42 pay periods annually. The 2% deduction is being calculated based on 52 pay periods annually.

The Town and School Departments currently have almost 400 different pay codes available to use for the classification of earnings. The Town classified a pay code as exempt from retirement deductions while the School Department classified this same code as regular earnings and withheld retirement deductions. The procedure used to create, classify and confirm the proper categorization of these numerous codes was not easily discernible. It appears the Retirement System has not determined whether all of these pay codes qualify as regular compensation.

### **Recommendation:**

According to G.L. c. 32, § 22(1)(b1/2), 840 CMR 8.03, and PERAC MEMO #43/1999, all members who enter the system after January 1, 1979 and whose rate of pay on any given pay-period exceeds an annual rate of \$30,000 are subject to the additional 2% withholding. Members with 42 pay periods should have the 2% withheld on regular earnings exceeding \$714.29 (\$30,000/42) per pay period. A review of how the payroll system is calculating the 2% additional deduction should be conducted with the municipal payroll units to confirm compliance with the above mentioned statute and regulations.

The Retirement Board should conduct a review of all pay codes to determine if they qualify as regular compensation. The Board should be notified of and review all new pay codes to determine their proper classification and whether they qualify as regular compensation. All persons charged with processing retirement deductions should receive copies of any and all memos or notices relating to new regulations and other changes involving eligibility and contribution rates. The Board

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

should recommend to the member units that all codes be reviewed for redundancy and that all unused pay codes be deleted.

### **3. Affidavits:**

The Board has not sent out retiree affidavits for more than two years. The last mailing was June 30, 2004 with a return request date of August 1, 2004. Twenty-seven retirees' return of the affidavit could not be verified. The returned affidavits were not easily accessible.

### **Recommendation:**

The Board and staff must comply with 840 CMR 15.01 which requires that affidavits be sent out no less frequently than once every two years. A policy for recording receipt and filing of the affidavits must be established. A policy must be established to stop benefit payments to any retiree who does not respond within a reasonable period of time.

### **Board Response:**

The Brookline Retirement Board will institute all of the recommendations in the audit report.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2005	2004	2003
<b>Net Assets Available for Benefits:</b>			
Cash	\$3,015,897	\$5,643,322	\$5,226,212
Short Term Investments	300,000	7,471,061	14,379,464
Fixed Income Securities	25,457,576	46,169,418	47,305,164
Equities	43,451,237	0	0
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	52,691,536	90,851,490	82,363,581
Pooled International Equity Funds	27,880,626	25,263,394	21,100,343
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	9,142,671	8,590,311	3,108,311
Pooled International Fixed Income Funds	0	310,793	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	12,094,611	1,654,324	925,405
Pooled Real Estate Funds	18,619,958	8,060,080	7,071,067
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	1,090,781	972,217	852,770
Interest Due and Accrued	139,500	392,503	449,144
Accounts Receivable	9,470,532	1,059,513	353,718
Accounts Payable	(9,663,528)	(13,025,976)	(15,170,058)
<b>Total</b>	<u>\$193,691,396</u>	<u>\$183,412,449</u>	<u>\$167,965,120</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$49,789,969	\$47,970,677	\$45,715,992
Annuity Reserve Fund	17,979,045	17,001,906	16,717,033
Pension Fund	5,023,569	9,270,489	13,449,158
Military Service Fund	13,940	13,857	13,775
Expense Fund	0	0	0
Pension Reserve Fund	<u>120,884,872</u>	<u>109,155,519</u>	<u>92,069,162</u>
<b>Total</b>	<u>\$193,691,396</u>	<u>\$183,412,449</u>	<u>\$167,965,120</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance ( 2003)	\$43,641,169	\$15,783,869	\$17,923,289	\$13,638	\$0	\$65,102,894	\$142,464,859
Receipts	5,069,947	476,333	9,453,060	136	607,347	26,966,273	42,573,097
Inter Fund Transfers	(2,365,707)	2,365,712	0	0	0	(5)	0
	(629,417)	(1,908,880)	(13,927,192)	0	(607,347)	0	(17,072,836)
Disbursements							
Ending Balance (2003)	45,715,992	16,717,033	13,449,158	13,775	0	92,069,162	167,965,120
Receipts	4,808,526	500,072	10,416,769	83	788,690	17,086,354	33,600,493
Inter Fund Transfers	(1,950,605)	1,950,602	0	0	0	3	0
	(603,236)	(2,165,801)	(14,595,437)	0	(788,690)	0	(18,153,164)
Disbursements							
Ending Balance (2004)	47,970,677	17,001,906	9,270,489	13,857	0	109,155,519	183,412,449
Receipts	5,371,474	514,471	11,394,181	83	987,562	11,730,405	29,998,177
Inter Fund Transfers	(2,684,906)	2,686,940	(982)	0	0	(1,052)	0
	(867,277)	(2,224,273)	(15,640,119)	0	(987,562)	0	(19,719,231)
Disbursements							
Ending Balance (2005)	<u>\$49,789,969</u>	<u>\$17,979,045</u>	<u>\$5,023,569</u>	<u>\$13,940</u>	<u>\$0</u>	<u>\$120,884,872</u>	<u>\$193,691,396</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Annuity Savings Fund:</b>			
Members Deductions	\$4,606,631	\$4,242,034	\$4,183,250
Transfers from Other Systems	308,011	128,626	296,928
Member Make Up Payments and Re-deposits	99,615	64,705	126,252
Member Payments from Rollovers	81,077	106,521	38,397
Investment Income Credited to Member Accounts	<u>276,139</u>	<u>266,640</u>	<u>425,120</u>
Sub Total	<u>5,371,474</u>	<u>4,808,526</u>	<u>5,069,947</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>514,471</u>	<u>500,072</u>	<u>476,333</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	201,829	163,975	143,060
Received from Commonwealth for COLA and Survivor Benefits	1,255,352	719,793	0
Pension Fund Appropriation	<u>9,937,000</u>	<u>9,533,000</u>	<u>9,310,000</u>
Sub Total	<u>11,394,181</u>	<u>10,416,769</u>	<u>9,453,060</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>83</u>	<u>83</u>	<u>136</u>
Sub Total	<u>83</u>	<u>83</u>	<u>136</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>987,562</u>	<u>788,690</u>	<u>607,347</u>
Sub Total	<u>987,562</u>	<u>788,690</u>	<u>607,347</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	34,078	34,350	28,933
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,523	9,658	5,884
Miscellaneous Income	57	18,828	862
Excess Investment Income	<u>11,691,748</u>	<u>17,023,518</u>	<u>26,930,594</u>
Sub Total	<u>11,730,405</u>	<u>17,086,354</u>	<u>26,966,273</u>
<b>Total Receipts</b>	<u>\$29,998,177</u>	<u>\$33,600,493</u>	<u>\$42,573,097</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$432,806	\$459,885	\$274,151
Transfers to Other Systems	<u>434,471</u>	<u>143,351</u>	<u>355,266</u>
Sub Total	<u>867,277</u>	<u>603,236</u>	<u>629,417</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	2,224,273	2,165,801	1,908,880
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,224,273</u>	<u>2,165,801</u>	<u>1,908,880</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	8,656,924	8,232,313	7,767,003
Survivorship Payments	947,792	932,587	925,202
Ordinary Disability Payments	169,168	181,840	166,957
Accidental Disability Payments	4,098,785	3,866,859	3,539,983
Accidental Death Payments	904,798	869,062	829,348
Section 101 Benefits	331,821	233,302	224,240
3 (8) (c) Reimbursements to Other Systems	412,666	163,658	359,291
State Reimbursable COLA's Paid	118,166	115,815	115,167
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>15,640,119</u>	<u>14,595,437</u>	<u>13,927,192</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	0	0	0
Salaries	180,963	192,454	169,530
Legal Expenses	12,082	9,154	12,469
Medical Expenses	0	0	0
Travel Expenses	9,205	2,037	3,769
Administrative Expenses	55,334	42,685	38,167
Furniture and Equipment	1,236	6,237	0
Management Fees	550,074	398,182	260,906
Custodial Fees	118,078	76,905	67,142
Consultant Fees	50,000	50,000	50,000
Rent Expenses	0	0	0
Service Contracts	0	0	0
Fiduciary Insurance	10,591	11,036	5,363
Sub Total	<u>987,562</u>	<u>788,690</u>	<u>607,347</u>
<b>Total Disbursements</b>	<u>\$19,719,231</u>	<u>\$18,153,164</u>	<u>\$17,072,836</u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Investment Income Received From:</b>			
Cash	\$179,647	\$72,455	\$122,068
Short Term Investments	20,999	76,129	74,273
Fixed Income	3,730,448	2,841,178	2,989,198
Equities	164,929	6,488	44,790
Pooled or Mutual Funds	2,337,627	1,983,614	369,114
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>6,433,650</u>	<u>4,979,864</u>	<u>3,599,443</u>
<b>Plus:</b>			
Realized Gains	3,428,232	1,180,915	1,630,217
Unrealized Gains	20,661,696	24,628,780	31,076,765
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>139,500</u>	<u>392,503</u>	<u>449,144</u>
Sub Total	<u>24,229,428</u>	<u>26,202,199</u>	<u>33,156,126</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(1,756,503)	(887,893)	(902,901)
Realized Loss	(1,454,213)	(998,547)	(1,154,404)
Unrealized Loss	(13,589,855)	(10,267,476)	(5,754,362)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(392,503)</u>	<u>(449,144)</u>	<u>(504,372)</u>
Sub Total	<u>(17,193,074)</u>	<u>(12,603,060)</u>	<u>(8,316,039)</u>
<b>Net Investment Income</b>	<u>13,470,004</u>	<u>18,579,002</u>	<u>28,439,530</u>
<b>Income Required:</b>			
Annuity Savings Fund	276,139	266,640	425,120
Annuity Reserve Fund	514,471	500,072	476,333
Military Service Fund	83	83	136
Expense Fund	<u>987,562</u>	<u>788,690</u>	<u>607,347</u>
<b>Total Income Required</b>	<u>1,778,256</u>	<u>1,555,485</u>	<u>1,508,936</u>
Net Investment Income	<u>13,470,004</u>	<u>18,579,002</u>	<u>28,439,530</u>
Less: Total Income Required	<u>1,778,256</u>	<u>1,555,485</u>	<u>1,508,936</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$11,691,748</u>	<u>\$17,023,518</u>	<u>\$26,930,594</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$3,015,897	1.6%	100%
Short Term	300,000	0.2%	100%
Fixed Income	25,457,576	13.1%	15%
Equities	43,451,237	22.4%	60%
Pooled Short Term Funds	0	0.0%	
Pooled Domestic Equity Funds	52,691,536	27.2%	60%
Pooled International Equity Funds	27,880,626	14.4%	15%
Pooled Global Equity Funds	0	0.0%	
Pooled Domestic Fixed Income Funds	9,142,671	4.7%	15%
Pooled International Fixed Income Funds	0	0.0%	
Pooled Global Fixed Income Funds	0	0.0%	
Pooled Alternative Investment Funds	12,094,611	6.2%	5%
Pooled Real Estate Funds	18,619,958	9.6%	10%
Pooled Domestic Balanced Funds	0	0.0%	5%
Pooled International Balanced Funds	0	0.0%	
PRIT Cash Fund	0	0.0%	100%
PRIT Core Fund	1,090,781	0.6%	100%
<b>Grand Total</b>	<b><u>\$193,744,891</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2005, the rate of return for the investments of the Brookline Retirement System was 7.87%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Brookline Retirement System averaged 6.38%. For the twenty-one-year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Brookline Retirement System was 10.28%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Brookline Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

April 6, 2001

21.01 The Brookline Retirement Board has authorized State Street Research & Management Company to utilize financial futures and options in the management of its fixed income portfolio. These instruments will be used solely as tools to manage portfolio risk with regard to such measures as duration, convexity, and yield curve analysis. Use of these instruments is limited to 25% of the total value of fixed income portfolio. (All other Prohibited Investments of 21.01 still apply).

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Brookline Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Brookline request as it applies to 840 CMR 17.04(6)

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brookline Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

Please be advised that this Supplemental Regulation as it exempts the Brookline Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Brookline Retirement Board.

March 7, 1996

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

November 2, 1995

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

December 11, 1991

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

(a) 1% of the value of the fund for the first \$5 million; and

(b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 24, 1989

20.03(4) International equity and fixed income investments shall not exceed 15% of the total portfolio valued at market.

20.04(6) Foreign corporations and obligations issued and guaranteed by foreign governments.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States or traded in foreign stock markets.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Brookline Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Brookline Retirement System submitted the following supplementary membership regulation, which was approved by PERAC on:

November 12, 2003

#### Membership

All part-time, provisional, temporary or intermittent employees who are regularly scheduled to work twenty (20) hours per week are required to become members of the Brookline Contributory Retirement System and to make weekly contributions to the system pursuant to G.L.c.32, 22 (1)(B). Those employees who are not regularly scheduled to work at least twenty (20) hours per week will not be allowed membership in the Brookline Contributory Retirement System.

All appointed officials serving in non-compensated positions are ineligible for membership in the Brookline Contributory Retirement System.

All non-elected appointed officials, board members and commissioners who receive compensation and work less than twenty (20) hours per week are eligible for membership in the System. Creditable service shall be one (1) year of creditable service for every year of service in such capacity, so long as the member does not receive in excess of one (1) year of combined service for dual functions in any calendar year.

Any permanent employee of the Brookline School Department who is not a certified teacher is eligible for membership in the retirement system. Said employees will be granted credit for a full year of creditable service if they are employed full time for the job they perform even if the job only occurs during the school year.

The Board shall have full jurisdiction to determine the eligibility of employees for membership in all cases involving part-time, provisional, temporary provisional, seasonal or intermittent employment.

#### Creditable Service

A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked provided the member works the number of hours required by the position held.

A member employed on a part-time basis who becomes a full-time employee for more than fifteen months provided those fifteen months are to be used in as part of the retirement allowance

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

calculation in accordance with section 5(1) shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro rated basis as it relates to a full-time position.

Part-time membership service performed on or before [the date of the regulation] shall be credited with full-time service. Thereafter, all part-time service shall receive credit in accordance with the rules stated in this regulation.

Any member in service authorized by law to purchase prior creditable service may purchase such creditable service by authorizing a payroll deduction of not less than \$25.00 per week for a period not to exceed five (5) years.

#### Federal Grant Service

1. Employees of a member unit of the Brookline Contributory Retirement System, whose compensation is paid through a federal grant and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Brookline Contributory Retirement System.
2. Members of the Brookline Contributory Retirement System who previously rendered service in a member unit under a Federal Grant (e.g. CETA, EAP, Title I, LEAA,) but were excluded or omitted from membership in the Brookline Contributory Retirement System due solely to the federal source of payment of the compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Brookline Contributory Retirement System to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.
3. Members of the Brookline Contributory Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased. The grant of creditable service for such prior employment service shall not serve to establish retroactive membership in the Brookline Contributory Retirement System.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

#### Forms

Every employee who becomes a member of the Brookline Contributory Retirement System must fill out the necessary forms as furnished by the Retirement Board and name a beneficiary. At the time of enrollment, the member must also furnish the board with a copy of their birth certificate, and if a veteran, a copy of the Discharge of Military Service which shall be kept on file by the Board.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Judith Haupin

Appointed Member: Stephen Cirillo                      Term Expires: 1/14/09

Elected Member: Joseph Duffy Term Expires: 12/19/08

Elected Member: James Riley, Chairperson      Term Expires: 12/19/08

Appointed Member: Gary Altman                      Term Expires: 1/22/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex-officio Member:	)	\$50,000,000 fiduciary and
Elected Member:	)	\$1,000,000 fidelity policies
Appointed Member:	)	through MACRS
Staff Employee:	)	

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2006.

The actuarial liability for active members was	\$142,191,807
The actuarial liability for inactive members was	3,788,358
The actuarial liability for retired members was	<u>153,375,604</u>
The total actuarial liability was	299,355,769
System assets as of that date were	<u>190,818,205</u>
The unfunded actuarial liability was	<u>\$108,537,564</u>
The ratio of system's assets to total actuarial liability was	63.7%
As of that date the total covered employee payroll was	\$58,277,406

The normal cost for employees on that date was 8.4% of payroll

The normal cost for the employer including administrative expenses was 4.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum  
 Rate of Salary Increase: 5.00% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2006	\$190,818,205	\$299,355,769	\$108,537,564	63.7%	\$58,277,406	186.2%
1/1/2004	\$177,153,465	\$265,441,629	\$88,288,164	66.7%	\$52,378,086	168.6%
1/1/2002	\$171,285,347	\$250,478,343	\$79,192,996	68.4%	\$45,109,610	175.6%
1/1/2000	\$160,983,529	\$217,964,030	\$56,980,501	73.9%	\$43,028,894	132.4%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Retirement in Past Years</b>										
Superannuation	26	29	28	26	38	19	33	22	26	27
Ordinary Disability	0	0	0	0	0	1	1	0	1	0
Accidental Disability	4	5	5	1	0	6	6	9	6	11
<b>Total Retirements</b>	30	34	33	27	38	26	40	31	33	38
Total Retirees, Beneficiaries and Survivors	787	799	794	792	798	794	803	844	842	841
Total Active Members	1,037	1,070	1,115	1,126	1,356	1,428	1,450	1,562	1,702	1,599
<b>Pension Payments</b>										
Superannuation	\$4,918,620	\$5,423,402	\$5,436,887	\$5,452,372	\$6,190,287	\$6,824,780	\$7,410,872	\$7,767,003	\$8,232,313	\$8,656,924
Survivor/Beneficiary Payments	634,152	708,828	739,057	663,337	692,432	696,580	824,253	925,202	932,587	947,792
Ordinary Disability	230,539	206,837	189,912	150,360	141,417	148,215	177,576	166,957	181,840	169,168
Accidental Disability	2,728,465	2,889,275	3,023,466	2,766,943	2,746,904	2,823,446	3,234,400	3,539,983	3,866,859	4,098,785
Other	<u>1,200,127</u>	<u>1,114,885</u>	<u>1,185,424</u>	<u>1,983,141</u>	<u>1,992,075</u>	<u>1,944,705</u>	<u>1,295,272</u>	<u>1,528,047</u>	<u>1,381,837</u>	<u>1,767,450</u>
<b>Total Payments for Year</b>	<u>\$9,711,903</u>	<u>\$10,343,227</u>	<u>\$10,574,746</u>	<u>\$11,016,153</u>	<u>\$11,763,115</u>	<u>\$12,437,726</u>	<u>\$12,942,373</u>	<u>\$13,927,192</u>	<u>\$14,595,437</u>	<u>\$15,640,119</u>

PERAC

Five Middlesex Avenue | Third Floor

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)